



China Mobile (941 HK/600941 CH)

Higher net profit margin in 2023E

- China Mobile ("the Group") to benefit from the growth of DICT business (data, information and communications technology) and higher 5G user penetration rate
- DICT revenue to grow 36.0% YoY in 2023E
- 5G user penetration rate to reach 76.6% in 2023E
- Recommend BUY with TP of HK\$ 88.0 for China Mobile-H (941 HK), which implies 3.8 x 2023 EV/EBITDA, and BUY for China Mobile-A (600941 CH) with TP of RMB 128.0, equivalent to 6.6x 2023E EV/EBITDA

The Group's 5G penetration to reach 76.6% in 2023E. China Mobile is expected to add 160mn 5G users in 2023E, driving up the 5G user penetration rate to 76.6%. As such, overall mobile ARPU would grow 0.9% YoY to RMB 49.4 in 2023E.

DICT business to benefit from digital economy. In 2023E, the Group's cloud platform business will be supported by the launch of digital economy and "East-to-West Computing Resource Transfer" strategy in China. Through partnership with numerous corporations, DICT revenue is estimated to grow 36.0% YoY in 2023E, accounting for 11.0% of total revenue.

Net profit to grow 20.8% in 2023E. D&A expense-to-revenue ratio would lower by 0.6ppt/0.5ppt YoY to 24.0%/23.5% in 2023-24E since we expect revenue growth to be higher than expense growth in D&A. 2023E NPM would edge up 0.8ppt YoY to 14.2%.

Valuation. We recommend **BUY** for both H/A-shr with TP at HK\$ 88.0/ RMB 128.0. H-shr TP implies 3.8x 2023E EV/EBITDA, while A-shr TP represents 6.6x 2023E EV/EBITDA.

Risk factors: 1) Slower-than-expected 5G and DICT development; 2) User saturation; 3) Further reduction in mobile data tariff by regulators; 4) Fierce market competitions.

Results and Valuation

FY ended Dec 31	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	848,258	937,259	1,068,183	1,220,232	1,400,472
Chg (% YoY)	10.4	10.5	14.0	14.2	14.8
Net profit (RMB mn)	116,148	125,459	151,567	179,380	210,036
Chg (% YoY)	7.7	8.0	20.8	18.4	17.1
EPS (RMB)	5.67	5.88	7.09	8.39	9.83
Chg (% YoY)	7.7	3.6	20.7	18.4	17.1
BPS (RMB)	58.92	60.77	64.54	67.74	71.43
Chg (% YoY)	5.0	3.2	6.2	4.9	5.5
P/E (x) –H shr	10.86	10.48	8.69	7.34	6.27
P/E (x) –A shr	18.31	17.67	14.64	12.37	10.56
P/B (x) –H shr	1.05	1.01	0.95	0.91	0.86
P/B (x) –A shr	1.76	1.71	1.61	1.53	1.45
ROE (%)	9.9	10.0	11.3	12.7	14.1
ROA (%)	6.5	6.6	7.7	8.7	9.8
DPS (RMB)	3.42	3.95	4.97	5.88	6.88
Dividend Yield (%) –H shr	5.56	6.42	8.06	9.54	11.17
Dividend Yield (%) –A shr	3.30	3.81	4.78	5.66	6.63

*Exchange rate assumption for FY23E-25E: 1 HKD = 0.9 RMB

Source(s): Bloomberg, ABCI Securities estimates

Company Report

May 5, 2023

Rating (HK): BUY
Rating (A): BUY
TP(HK): HK\$ 88.0
TP(A): RMB 128.0

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Price (H/A shr)	HK\$68.45/ RMB103.84
Est. s price return (H/A shr)	28.56%/23.27%
Est. dividend yield (H/A shr)	8.06%/4.78%
Est. total return (H/A shr)	36.62%/28.05%
Last Rating & TP (H/A shr)	BUY HK\$81.0/ BUY RMB97.0
Previous Report Date	Oct 25, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H-shr)	70.00/45.37
52Wk H/L (RMB) (A shr)	106.00/57.59
Total issued shares (mn)	21,367.8
Issued H shr (mn)	20,465.0
Issued A shr (mn)	902.8
H-shr market cap (HK\$ mn)	1,400,829.3
A-shr market cap (RMB mn)	93,746.8

Source(s): Bloomberg

Major shareholder(s) :

China Mobile Com. Group Co. Ltd	69.7%
Foresight Fund	0.4%
Vanguard	0.3%

Source(s): the Group



Higher NPM, EDITDA margin, and mobile ARPU than peers

In 1Q23, China Mobile's NPM, EBITDA margin, and mobile ARPU were much higher than other telecom operators. The higher profit margins (NPM, EBITDA margin) can be attributed to the economies of scale arisen from its large customer base. Its higher-than-peer mobile ARPU also signals a larger proportion of high-end customers. We expect China Mobile to maintain its edges in profit margins and customer mix.

Exhibit 1: Comparison table of 1Q23 results

	China Mobile	China Unicom	China Telecom
Net profit margin	11.2%	5.3%	6.1%
EBITDA margin	31.9%	26.5%	25.9%
Mobile ARPU	RMB 47.9	RMB 44.9	RMB 45.8
Total mobile customers	983mn	N/A	399mn

Source(s): China Mobile, China Unicom, China Telecom

5G user penetration rate to reach 76.6% in 2023E

China Mobile managed to expand its 5G telecom network through the co-operation with China Broadcasting Network Co Ltd, from which it will benefit from the strategic partnership in 5G network sharing. We expect the Group to add 160mn 5G users in 2023E with a 5G user penetration rate of 76.6%. The higher 5G penetration will drive up 2023E mobile ARPU by 0.9% YoY to RMB 49.4.

DICT (data, information, and communications technology) business revenue to grow 36.0% YoY in 2023E

The 2023 Government Report has emphasized the development of digital economy, which will drive up demand for data center and telecom services. More enterprises will transfer their business to the cloud platforms to improve efficiency and reduce operating expenses. We forecast 2023-24E DICT business revenue to grow 36.0%/33.0% YoY, based on our assumption of total revenue proportion.

Exhibit 2: China Mobile's DICT revenue

RMB mn	2021	2022	2023E	2024E	2025E
DICT revenue	62,300	86,400	117,504	156,280	206,290
YoY	43.2%	38.8%	36.0%	33.0%	32.0%
% of total revenue	7.3%	9.2%	11.0%	12.8%	14.7%

Source(s): The Group, ABCI Securities estimates

Benefit from lower D&A expense-to-revenue ratio

As the revenue growth (14.0% in 2023E; 14.2% in 2024E) will be much faster than the D&A expense growth (9.1% in 2023E; 10.0% in 2024E), the D&A expense-to-revenue ratio will be trending down, dropping 0.6ppt/0.5ppt to 24.0%/23.5% in 2023-24E, based on our estimates. We lower our 2023-24E D&A expense estimates by 3.2%/1.3%. NPM is expected to edge up 0.8ppt YoY to 14.2% in 2023E.



Exhibit 3: Major assumptions for our forecasts

	2021	2022	2023E	2024E	2025E
Overall mobile users (mn)	956.9	975.0	992.0	1,007.0	1,020.0
YoY	1.6%	1.9%	1.7%	1.5%	1.3%
5G users (mn)	386.8	600.0	760.0	880.0	970.0
YoY	134.4%	55.1%	26.7%	15.8%	10.2%
Mobile ARPU (RMB)	48.8	49.0	49.4	50.0	50.4
YoY	3.0%	0.4%	0.9%	1.1%	0.8%
Fixed line broadband users (mn)	240.1	272.2	298.2	325.2	353.2
YoY	14.2%	13.4%	9.6%	9.1%	8.6%
Fixed line ARPU (RMB)	34.7	34.1	34.9	35.6	36.2
YoY	2.1%	(1.7%)	2.4%	2.0%	1.5%

Source(s): Group, ABCI Securities estimates

Exhibit 4: Changes in our financial estimates

	OLD			NEW			CHANGE		
(RMB mn)	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	1,053,291	1,163,125	N/A	1,068,183	1,220,232	1,400,472	1.4%	4.9%	N/A
Net profit	144,515	157,543	N/A	151,567	179,380	210,036	4.9%	13.9%	N/A
EPS (RMB)	6.765	7.375	N/A	7.093	8.395	9.830	4.9%	13.8%	N/A

Source(s): Group, ABCI Securities estimates

Recommend BUY for H/A-shr (941 HK/600941 CH)

We revise up China Mobile's 2023-24E net profit by 4.9%/13.9% due to the raised revenue forecasts and lower D&A expenses. Our DCF valuations for China Mobile H/A shares (941 HK/600941 CH) apply a WACC of 12.3%/11.8% and a perpetuity growth rate of 2.0%/2.0%. We recommend **BUY** for H-shr counter with a TP of HK\$ 88.0 (implies 3.8x 2023E EV/EBITDA) and **BUY** for A-shr counter with a TP for RMB 128.0 (implies 6.6x 2023E EV/EBITDA).

Exhibit 5: EV/EBITDA calculations

	H-Share	A-Share
If share price at	HKD 88.0	RMB 128.0
Issued shares (mn)	21,367.8	21,367.8
Market cap (mn)	HKD 1,880,366.4	RMB 2,735,078.4
RMB/HKD	0.9	N/A
Market cap (mn)	RMB 1,692,329.8	RMB 2,735,078.4
- cash and cash equivalents in 2023E (RMB mn)	231,008.5	231,008.5
+ Short-term and long-term bank loans (RMB mn)	0	0
+ non-controlling interests (RMB mn)	4,238.1	4,238.1
Enterprise Value (RMB mn)	1,465,559.4	2,508,308.0
EBITDA in 2023E (RMB mn)	381,844.6	381,844.6
EV/EBITDA	3.8	6.6

Source(s): ABCI Securities estimates



Consolidated income statement (2021A-2025E)

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Revenue from telecommunications services	751,409	812,058	909,804	1,022,258	1,155,974
DICT revenue	62,300	86,400	117,504	156,280	206,290
Other services revenue	689,109	725,658	792,300	865,978	949,684
Revenue from sales of products and others	96,849	125,201	158,379	197,974	244,498
Total revenue	848,258	937,259	1,068,183	1,220,232	1,400,472
Network operation and support expenses	(225,010)	(254,182)	(291,614)	(335,564)	(386,530)
Depreciation and amortization	(193,045)	(200,077)	(218,353)	(240,231)	(268,186)
Employee benefit and related expenses	(118,680)	(130,157)	(146,478)	(165,606)	(188,424)
Selling expenses	(48,243)	(49,592)	(52,769)	(57,246)	(63,579)
Cost of products sold	(96,083)	(122,743)	(142,068)	(163,511)	(189,064)
Other operating expenses	(49,234)	(51,409)	(53,409)	(58,571)	(65,822)
Profit from operations	117,963	129,099	163,492	199,503	238,868
Other gains	8,257	9,388	10,699	12,222	14,028
Interest and other income	16,729	15,729	14,943	14,195	13,486
Finance costs	(2,679)	(2,330)	(2,805)	(2,963)	(3,129)
Income from investments accounted for using the equity method	11,914	10,986	10,437	9,915	9,419
Profit before taxation	152,184	162,872	196,765	232,873	272,671
Taxation	(35,878)	(37,278)	(45,035)	(53,300)	(62,409)
Profit for the year	116,306	125,594	151,730	179,573	210,262
Shareholders' profit	116,148	125,459	151,567	179,380	210,036
Non-controlling interests	158	135	163	193	226
EBITDA	311,008	329,176	381,845	439,734	507,053
EPS (RMB)	5.673	5.877	7.093	8.395	9.830
DPS (RMB)	3.424	3.955	4.965	5.876	6.881

Source(s): Group, ABCI Securities estimates



Consolidated balance sheet (2021A-2025E)

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Property, plant and equipment	723,305	741,029	749,921	758,920	768,027
Investments accounted for using the equity method	169,556	175,649	180,918	186,346	191,936
Financial assets measured at fair value through profit or loss	78,600	187,130	192,744	198,526	204,482
Deferred tax assets	43,216	43,638	44,293	44,957	45,631
Others	231,279	331,721	337,289	343,246	349,607
Total non-current assets	1,245,956	1,479,167	1,505,166	1,531,995	1,559,684
Cash and cash equivalents	243,943	167,106	231,008	280,806	340,750
Financial assets measured at fair value through profit or loss	132,995	108,303	102,888	97,743	92,856
Bank deposits	91,212	56,377	55,249	54,144	53,062
Accounts receivable	34,668	40,245	41,855	43,529	45,270
Others	92,553	84,340	84,236	84,349	84,680
Total current assets	595,371	456,371	515,237	560,572	616,618
Total assets	1,841,327	1,935,538	2,020,403	2,092,567	2,176,303
Accounts payable	152,712	156,536	159,667	162,860	166,117
Accrued expenses and other payables	274,509	225,576	218,809	212,244	205,877
Contract liabilities	79,068	75,255	72,997	70,807	68,683
Others	75,859	75,970	78,936	82,076	85,400
Total current liabilities	582,148	533,337	530,408	527,988	526,077
Deferred revenue	8,487	8,810	9,251	9,713	10,199
Lease liabilities – non-current	30,922	81,741	86,645	91,844	97,355
Others	9,478	10,227	10,713	11,222	11,755
Total non-current liabilities	48,887	100,778	106,609	112,779	119,308
Total liabilities	631,035	634,115	637,017	640,767	645,386
Equity attributable to shareholders	1,206,350	1,297,348	1,379,148	1,447,369	1,526,260
Non-controlling interests	3,942	4,075	4,238	4,431	4,657
Total equity	1,210,292	1,301,423	1,383,386	1,451,800	1,530,917

Source(s): Group, ABCI Securities estimates



Consolidated Cash Flow Statement (2021A-2025E)

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Operating profit before change in working capital	325,954	344,715	435,811	447,998	487,336
Change in working capital	28,204	(22,811)	(13,904)	(13,693)	(13,501)
The mainland of China and other countries and regions' enterprise income tax paid	(38,991)	(41,058)	(45,035)	(53,300)	(62,409)
HK profits tax paid	(403)	(96)	(99)	(102)	(105)
Operating cash flow	314,764	280,750	376,773	380,904	411,321
CAPEX	(202,673)	(183,861)	(183,200)	(179,536)	(175,945)
Change in available-for-sale financial asset	27,604	5,632	(249)	(313)	(378)
Others	(63,227)	(59,824)	13,204	12,104	11,050
Investing cash flow	(238,296)	(238,053)	(170,245)	(167,745)	(165,273)
Dividend paid	(57,585)	(86,837)	(106,097)	(125,566)	(147,025)
Subscription funds received from issuance of RMB Shares	48,695	0	0	0	0
Others	(36,311)	(33,677)	(37,362)	(38,503)	(39,681)
Financing cash flow	(45,201)	(120,514)	(143,458)	(164,069)	(186,706)
Net increase in cash & cash equivalents	31,267	(77,817)	63,069	49,089	59,343
Cash & cash equivalents at beginning of year	212,729	243,943	167,106	231,008	280,806
Effect of changes in foreign exchange rate	(53)	980	833	708	602
Cash & cash equivalents at end of year	243,943	167,106	231,008	280,806	340,750

Source(s): Group, ABCI Securities estimates

Financial Ratios

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
<u>Profit margins:</u>					
EBITDA margin (%)	36.7	35.1	35.7	36.0	36.2
Operating margin (%)	15.7	15.9	18.0	19.5	20.7
Net profit margin (%)	13.7	13.4	14.2	14.7	15.0
ROA (%)	6.5	6.6	7.7	8.7	9.8
ROE (%)	9.9	10.0	11.3	12.7	14.1
<u>YoY Growth:</u>					
Revenue (%)	10.4	10.5	14.0	14.2	14.8
EBITDA (%)	9.1	5.8	16.0	15.2	15.3
Net profit (%)	7.7	8.0	20.8	18.4	17.1

Source(s): Group, ABCI Securities estimates



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Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 9\%$)
Hold	- Market return rate ($\sim 9\%$) \leq Stock return rate $<$ Market return rate ($\sim 9\%$)
Sell	Stock return $<$ - Market return ($\sim 9\%$)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2006 (HSI total return index 2006-22 averaged at 8.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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